UK INTERNAL AUDIT (UKIA) WORK PRIORITIZATION

Joe Reed, Chief Audit Executive, UK Internal Audit (UKIA)
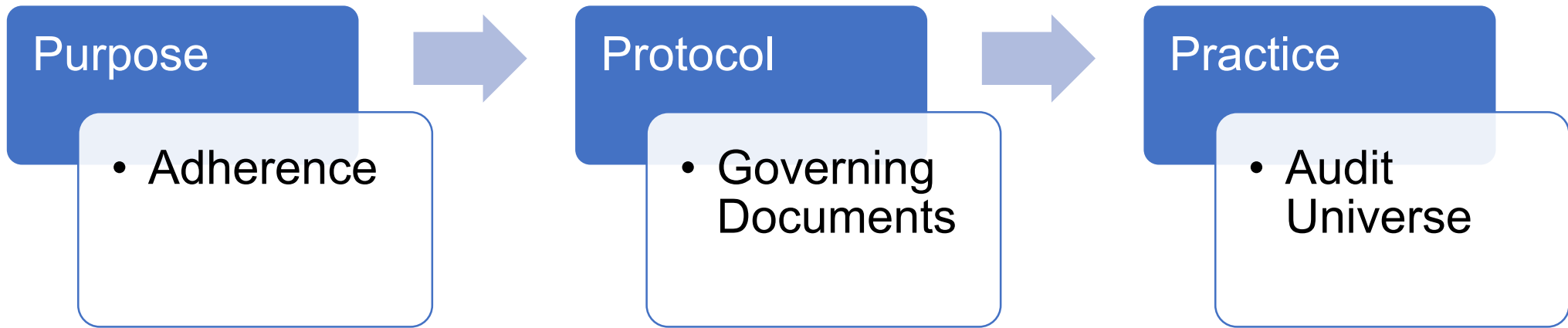
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AN EQUAL OPPORTUNITY UNIVERSITY
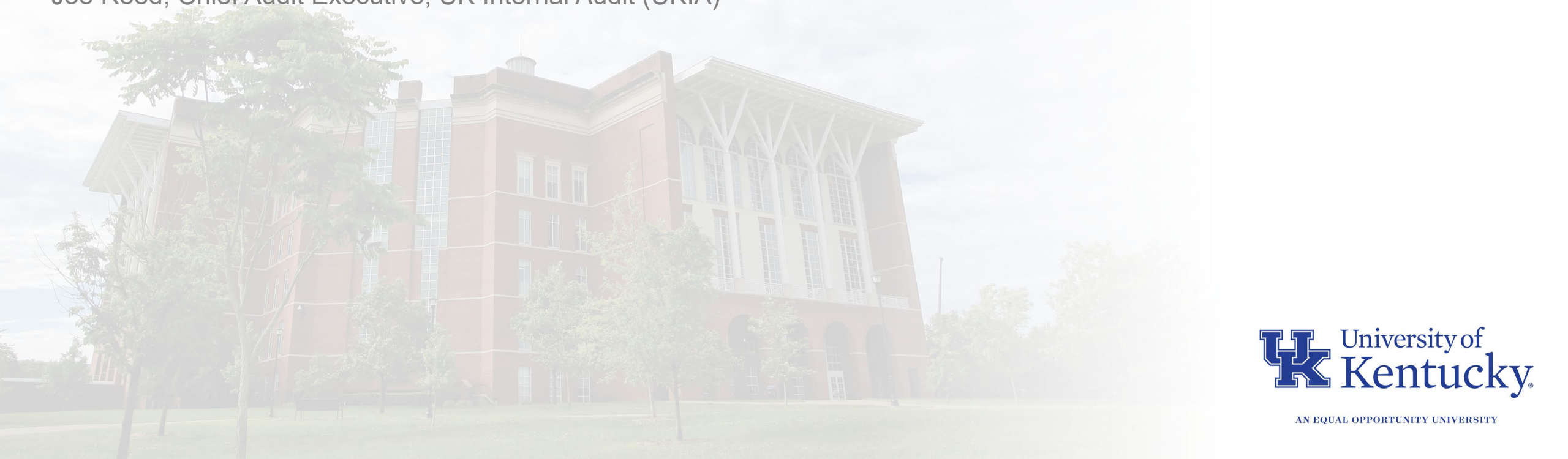
AGENDA

1. Objective

2. Risk Assessment Results (High Ratings)

3. Other Considerations

4. Work Prioritization Plan

5. Work Prioritization Activity

OBJECTIVE

Purpose
- Adherence

Protocol
- Governing Documents

Practice
- Audit Universe

IIA INTERNATIONAL PROFESSIONAL PRACTICES STANDARD 2010: PLANNING

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity that is consistent with the organization's goals.

Interpretation:
To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

UKIA RESPONSIBILITY PER CHARTER

University of Kentucky
Internal Audit Charter

Purpose

University of Kentucky Internal Audit (UKIA) is an independent and objective assurance and consulting function which assists units of the University of Kentucky in the effective performance of their operational and fiduciary responsibilities with respect to proper internal controls. UKIA aids in the achievement of management's objectives by reviewing areas of potential vulnerability and furnishing unit management and executive leadership (President, Executive Vice President for Finance and Administration, Executive Vice President for Health Affairs, and Provost) with expert analyses, information, and recommendations concerning the activities examined. UKIA has no authority over, nor direct responsibility for, any of the activities reviewed. The services performed by UKIA provide advisory assurance and guidance *only*, and in no way relieve these units of their responsibilities to achieve their unit's objectives in compliance with federal, state, and University regulations, policies, and procedures.

Standards

UKIA governs its activity in accordance with The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*. In addition, the Internal Audit function adheres to the University of Kentucky *Ethical Principles and Code of Conduct* and other internal professional policies. UKIA staff members will carry out the mission of the department by exhibiting professionalism, ethics, strong communication skills, and knowledge of federal, state, and University regulations. Each member of the department shall consistently demonstrate high standards of conduct, as well as appropriate judgment and discretion.

Authority

UKIA provides assurance and advisory services to all entities and affiliates of the University of Kentucky. UKIA's activity is independent and free from interference in determining the scope of audits, performing audit work, and communicating results. This independence is ensured through UKIA's reporting relationship to the President through the Executive Vice President for Finance and Administration and to the Audit and Compliance Committee (ACC) of the Board of Trustees. In carrying out these responsibilities, UKIA personnel have unrestricted access to all data, records, files, property, and personnel of the University. Per *GR XIV, Ethical Principles and Code of Conduct*, University employees are required to assist UKIA in fulfilling its roles and responsibilities.

Revised February, 2019

Responsibilities of Internal Audit

1. Internal Audit Charter: At least annually, UKIA will review this Charter with the Audit and Compliance Committee (ACC) for possible revisions based on industry standards; all charter revisions will be approved by the ACC.

2. Audit Project Prioritization: At least quarterly, UKIA will submit its risk-based, dynamic Work Plan to the ACC for review and approval; any significant interim changes will also be submitted.

3. Progress Reports: At each ACC meeting, and other times as requested, UKIA will provide a progress report summarizing audit activity to both University executive management and members of the ACC. In addition, UKIA will provide regular updates to the ACC regarding the effectiveness of the University's system of internal controls and compliance with applicable laws, regulations, and University policies.

4. Final Audit Reports: UKIA will issue final audit reports to a distribution list devised for each audit communication to ensure appropriate communication of results. The distribution list of final audit reports shall always include members of the ACC, University executive leadership, and the University's independent external auditors.

5. Quality Assurance: UKIA will communicate its quality assurance and improvement program status, including results of ongoing internal assessments and external assessments conducted to both University executive leadership and the ACC at least annually.

6. Collaborations: UKIA will work collaboratively with the University's independent external auditors to ensure that efforts are not duplicated and resources are leveraged. Additional relationships and collaborations will be formed with other University functions for improved University operation and to promote the achievement of management objectives.

Dr. Eli Capilouto
University President

Claude A. "Skip" Berry III
Chair, Audit and Compliance Committee

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POPULATING THE DATABASE

Information	Date	Source	Process	Unit	Application	Concern	Regulation	Work Plan Prioritization
Ad hoc[1]								
Recurring[2]								

Priority		Field	
Primary		Process	
Secondary		Unit	
		Application	
		Concern	
		Regulation	

1. *Ad hoc – Information obtained by UKIA as it becomes available from any source*
2. *Recurring – Data obtained by UKIA on a regular basis from process owners*
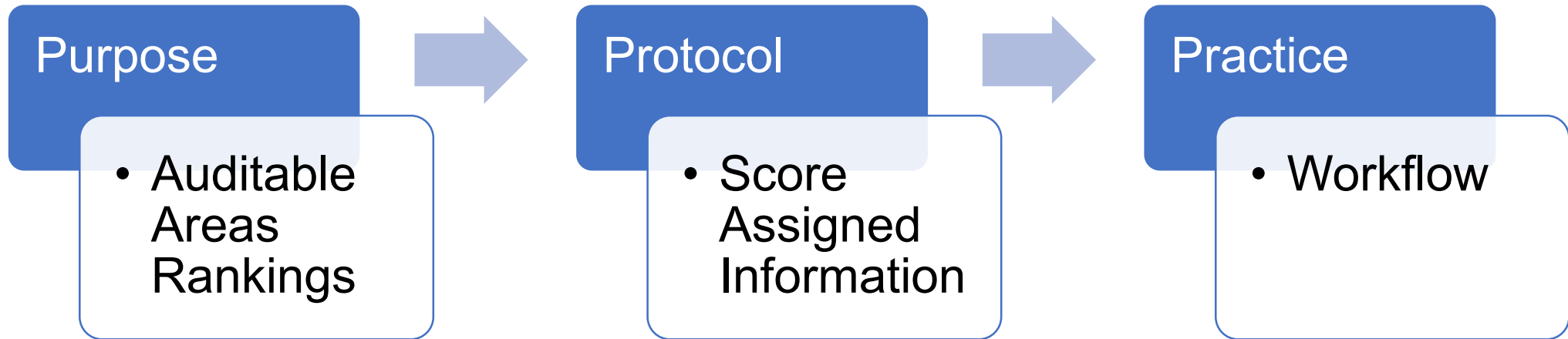
RISK ASSESSMENT ADJUSTMENTS

Business Risk Factors Weighted Scoring							
Enterprise Division	Public Exposure	External Factors	Materiality	Audit Duration	Control Environment I	Control Environment II	Management Requests
Academics	17.5%	17.5%	10.0%	10.0%	15.0%	20.0%	10.0%
Administration							
Affiliates							
Campus Operations							
Finance and Administration							
UK HealthCare	20.0%	17.5%	15.0%	10.0%	15.0%	15.0%	7.5%

AUDIT UNIVERSE FLOWCHART
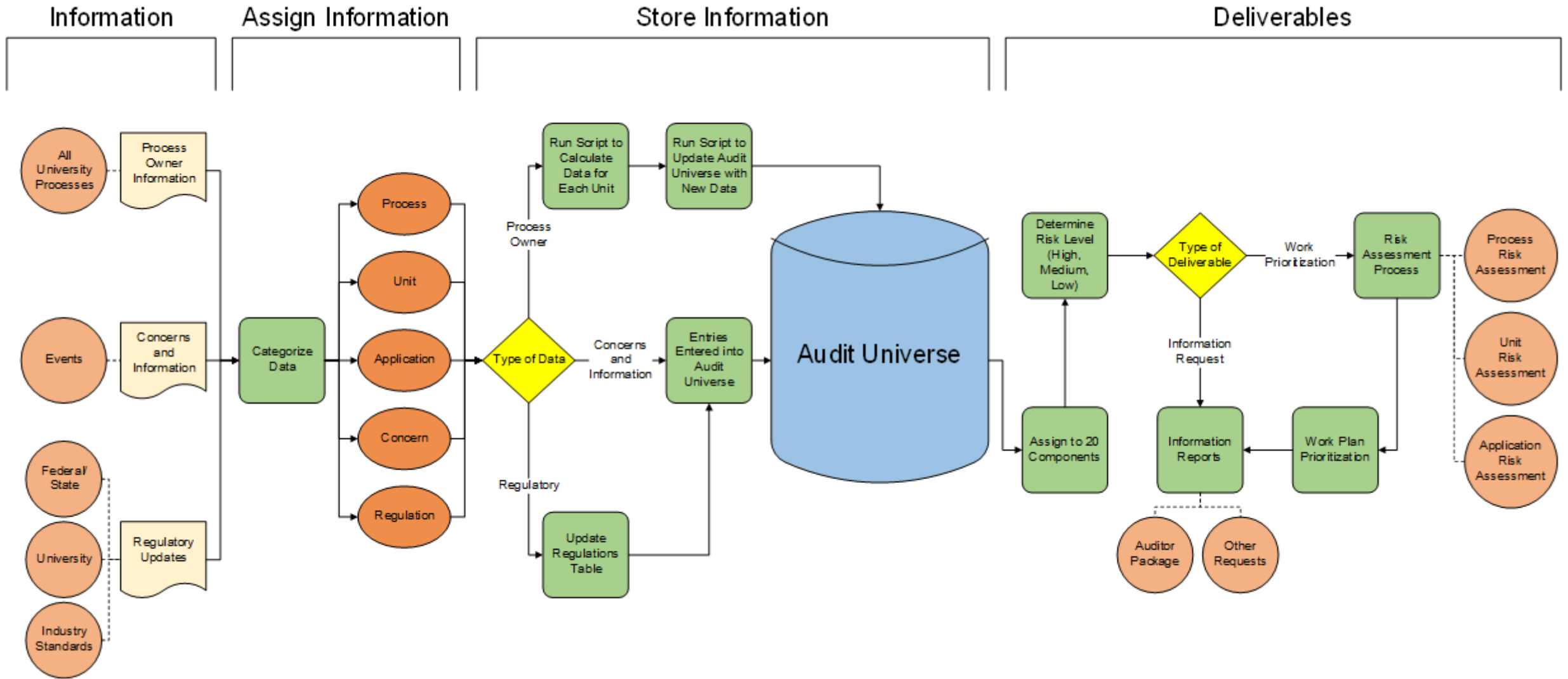
AUDIT UNIVERSE
10 Examples from Each Category

Units

1. Office of Sponsor Project Administration
2. Research Financial Services
3. Benefits
4. Motor Pool
5. Mailroom
6. Office of International Affairs
7. Public Relations
8. Mining Engineering Foundation
9. Ophthalmology
10. College of Public Health

EXAMPLES

- UKIA

Processes

1. Software Licensing
2. Cash Handling
3. ProCards
4. Scholarships
5. Payroll
6. Construction Projects
7. Grants
8. Student Registration
9. Property Leasing
10. Accounts Receivable

EXAMPLES

- UKIA Risk Assessment
- The Audit Process

Applications

1. Kronos
2. ProSam
3. Online Employment System
4. HealthQuest
5. Sunrise Clinical Manager
6. Thriva
7. CS Gold
8. Axium
9. Millennium
10. Blackboard

EXAMPLES

- Audit Command Language
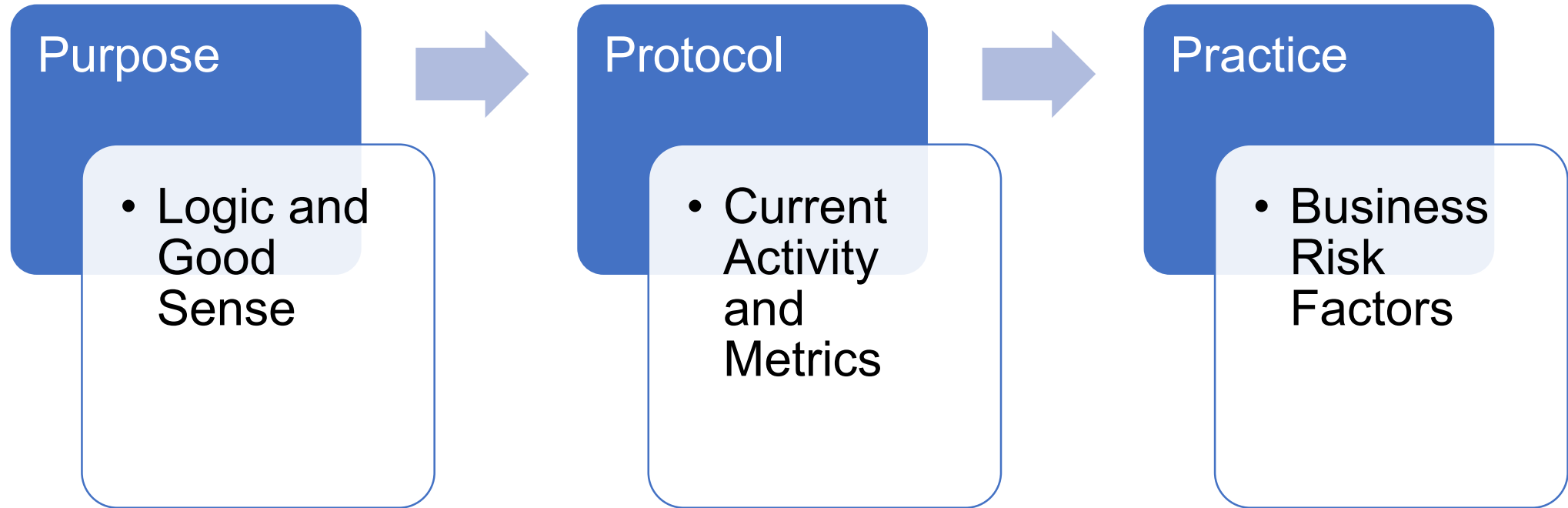- Structured Query Language (SQL) Database
- HighBond

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FY2020-21 RISK ASSESSMENT RESULTS

High Ranking Results – Top 16

Processes		Units	
1	Employee Benefits	1	Office of Academic Affairs and Undergraduate Education
2	Accounts Payable	2	Substance Use Research Priority Area
3	Grants Management	3	University Bookstore
4	Payroll Services	4	Campus Maintenance Central
5	Information Technology Networking and Infrastructure	5	Physical Plant Garage Services
6	Hiring	6	Employment
7	Student Account Services	7	Information Technology Services Customer Support and Student Enablement
8	Travel	8	Information Technology Networking and Infrastructure
9	Endowment and Gift Accounting	9	Turfland General Dentistry
10	Information Technology Security and Policy	10	Sponsored Research Administrative Services
11	Budget	11	Facility Services and Clinical Engineering
12	Capital Project Management	12	Interpreters

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OTHER CONSIDERATIONS

Purpose
- Logic and Good Sense

Protocol
- Current Activity and Metrics

Practice
- Business Risk Factors

WORK PLAN PRIORITIZATION CONSIDERATIONS

APPROVED FY2019-20 WORK PRIORITIZATION PLAN

	Processes		Units		Applications
1	Contract Management	1	Alumni Associations	1	In-House Applications
2	Family Educational Rights and Privacy Act (FERPA)	2	Shared Services	2	Server Configuration
3	Health Insurance Portability and Accountability Act (HIPAA)	3	Service Centers	3	Unit Applications
4	Conflicts of Interest	4	501(c)(3) Entities		
5	Regulatory Compliance	5	Unit Reviews Required by Kentucky Revised Statutes (KRS)		
6	Student Fees	6	Academic Units		
7	Agency Accounts				
8	ProCard				
9	Cash Handling				
10	Vendor Master File				
11	Deprovisioning				
12	Capital Construction				

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APPROVED FY2019-20 WORK PRIORITIZATION PLAN

Follow-Up				Unplanned	
1	Ophthalmology	**11**	Capital Construction	**1**	Comply Line
2	Surplus Operations	**12**	Sanders-Brown Center on Aging	**2**	Direct UKIA Contact
3	Animal and Food Sciences	**13**	The Foundation for Sanders-Brown Center on Aging	**3**	Expanded Scope
4	Boone Center	**14**	Student Account Services		
5	College of Public Health Grants	**15**	Pharmacology and Nutritional Sciences		
6	Mechanical Engineering	**16**	College of Dentistry – Inventory Controls		
7	Pharmacy Services	**17**	Network Medical Devices		
8	Perioperative Services	**18**	Institutional Research		
9	County Extension Services				
10	Hospital Security				

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FISCAL YEAR 2020 AUDIT COVERAGE

Processes			Units			Applications		
	Risk Area	**Audit Count**		**Risk Area**	**Audit Count**		**Risk Area**	**Audit Count**
1	Contract Management	43	1	Alumni Association	3	1	In-House Apps	7
2	FERPA	12	2	Shared Services	0	2	Server Configuration	8
3	HIPAA	16	3	Service Centers	7	3	Unit Application	8
4	Conflict of Interest	42	4	501c3 Entities	0			
5	Regulatory Compliance	38	5	KRS required	1			
6	Student Fees	6	6	Academic Units	8			
7	Agency Accounts	8						
8	ProCards	21						
9	Cash Handling	17						
10	Vendor Master File	8						
11	Deprovision	10						
12	Capital Construction	1						

UKIA BUSINESS RISK FACTORS

Business Risk Factor	Definition / Measurement	Component	
Public Exposure	Media Coverage Intensity and Type of Clientele	1. Media Coverage 2. Customer Type	3. Current Affairs 4. Program Visibility
External Factors	Federal and State Regulations and Industry Standards	5. State Regulations 6. Federal Regulations	7. Industry Compliance
Materiality	Financial and Budgetary Impact	8. Sources of Revenue 9. Transaction Volume	10. Budget Breakdown 11. Transaction Complexity
Audit Interval	Duration Since Last External and/or Internal Audit	12. Internal Audits 13. External Audits	14. Other Audits
Control Environment I	Workplace Culture and Practices	15. Operational 16. Event Identification	17. Key Position Turnover Rate
Control Environment II	Information Technology Culture and Practices	18. Information System (IS) Applications 19. Data Centers	
Management Requests	Review Request Made by University Management	20. Management Requests	

WORK PRIORITIZATION PLAN

Purpose

- Add Value

Protocol

- Prior Protocol Adherence

Practice

- Determine Priorities
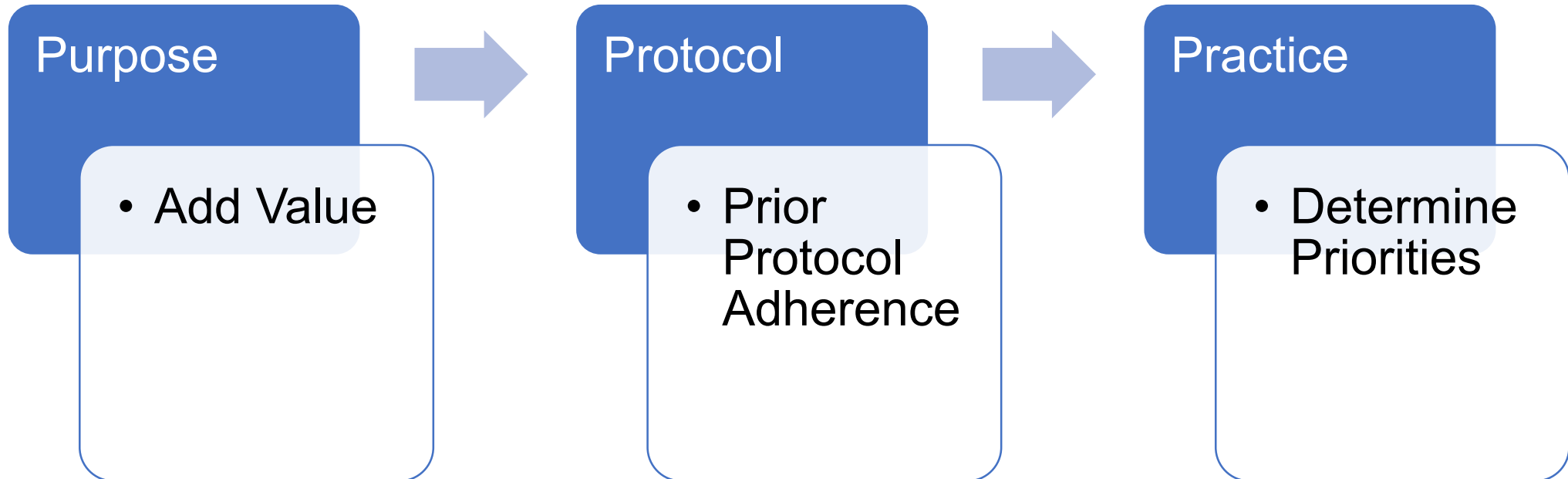
WORK PRIORITIZATION

"Modern internal auditing is risk-based, which means we need to know what are the biggest factors and events that could prevent business from meeting its objectives."

- The Management Information Systems (MIS) Training Institute

"Risk-based internal auditing is at the cutting-edge of internal audit practice… It allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite."

- Institute of Internal Auditors

FY2020-21 WORK PRIORITIZATION PLAN

	Processes		Units		Information Systems
1	Business Continuity	1	Academic Units	1	Access Controls
2	Cash Handling	2	Alumni Associations	2	Disaster Recovery
3	Compensation	3	Hospital Services	3	In-House Applications
4	Conflict of Interest	4	Share Services	4	Server Configuration
5	Contract Management	5	Student Support Services	5	Routine Maintenance
6	Disbursements	6	Retail Operations	6	Unit Applications
7	Inventory Management				
8	Scholarships				
9	Sponsored Contracts				
10	Supply Chain				
11	Student Financial Aid				
12	Tuition and Fees				

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FY2020-21 WORK PRIORITIZATION PLAN, CONTINUED

Follow-Ups*		Inquiries		Other Activities	
1	Comprehensive Reviews	1	Comply Line	1	Committee Membership
2	Consultations	2	First-hand Accounts	2	Partnerships
3	Data Mining	3	UKIA Website	3	Taskforce Participation
4	Information Technology				
5	Inquiries/Investigations				
6	Repetitive Audits				

*Audit observation remediation is the foundation of a successful organization. As such, UKIA activity in this area is based on completed activity.

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WORK PRIORITIZATION ACTIVITY

Purpose

- Relevant Activity

Protocol

- Expertise
- Urgency
- Second Line of Defense

Practice

- Activity Bundling
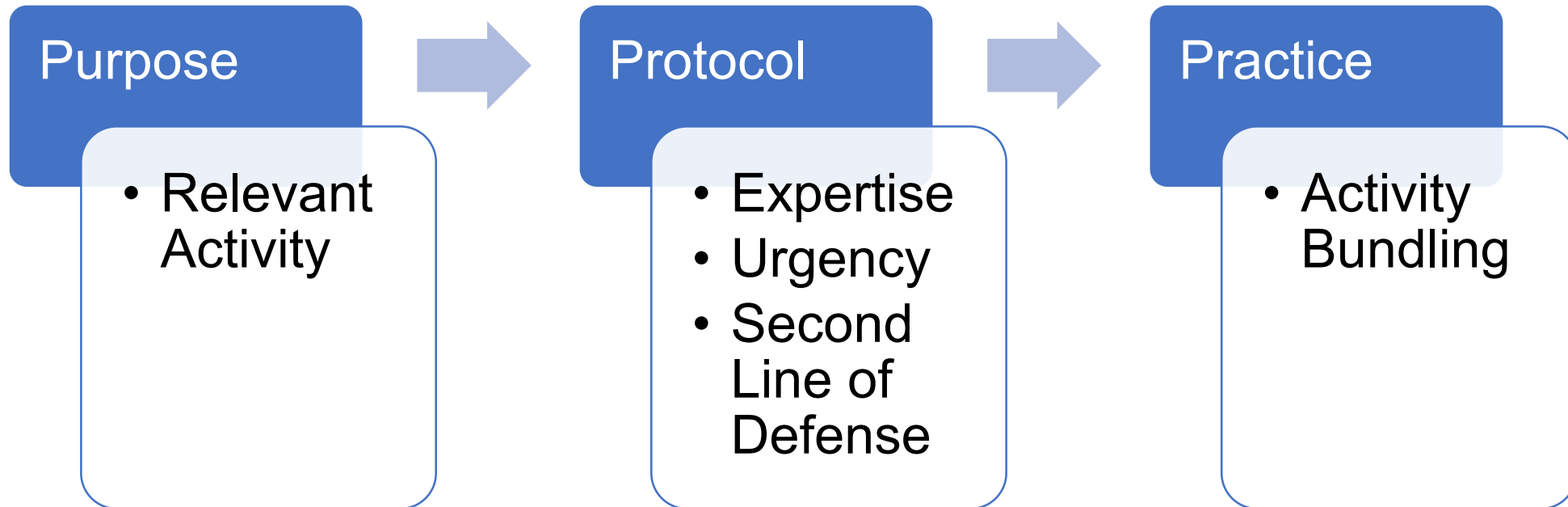
WORK PRIORITIZATION CONCLUSION

Agile:

We can assess audit needs and adapt planned coverage on a frequent/ongoing basis.

Transparent:

Because audit selection is entirely risk-based, we can clearly communicate why a particular process, unit, and/or application was selected for review.

Effective:

Doing the right audits, at the right time, and for the right reasons will ensure the greatest risks are addressed first.

Efficient:

Risk-based coverage optimizes UKIA resources by ensuring staff are focused on audit activity that will have the greatest impact on mitigating risk across the University.

Mission Statement:
Support UK in its pursuit of excellence by providing expert analyses and advice to champion the achievement of management objectives.